

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Rate Adjustment Due to Extraordinary
or Exceptional Circumstances

Docket No. R2013-11

PRESIDING OFFICER'S INFORMATION REQUEST NO. 7

(Issued November 8, 2013)

To clarify the Postal Service request for rate adjustments due to extraordinary or exceptional circumstances, filed September 26, 2013 (Request), the Postal Service is requested to provide written responses to the following questions. Answers to questions No. 1 and 2 should be provided no later than November 12, 2013. Answers to the remaining questions should be provided no later than November 15, 2013.

1. Please produce full sourcing for the table of data on advertising expenditures produced in response to Presiding Officer's Information Request (POIR) No. 1, question 9.
2. Please produce a fully-sourced version (in electronic format and showing all underlying calculations) of the graphs entitled "Actual vs. Potential GDP, 1991-2013" and "Output Gap (Actual GDP / Potential GDP – 1)," which the Postal Service produced in response to POIR No. 3, question 1.
3. On page 10 of Mr. Nickerson's statement, he says: "It is also extremely likely that mail volumes will continue to decline beyond 2014. First-Class Mail volumes have decreased every year since 2001, and there is no reason to believe this trend will change."

- a. How much of the decrease in the volume of First-Class Mail from 2001 to 2007 was due to the Great Recession?
 - b. Please refer to Attachment 15 to the Nickerson statement. How much of the 4.1 billion decline in volume from the 2013 Forecast to the 2014 After Rates Forecast (Jan 26, 2014) would you consider to be due to the Great Recession?
 - c. If the declining trend in First-Class Mail volume continues beyond 2014, as the Nickerson statement surmises, will any of that further decline in the volume of First-Class Mail be due to the Great Recession?
 - d. Is it fair to interpret the quoted statement in the preamble to this question as saying that the decline in First-Class Mail volume is unlikely to return to prior levels even when the economy improves because the decline in volume reflects an irreversible trend resulting from diversion of mail to alternatives such as the Internet, pay-by-phone, vote-by-phone for stockholder elections, etc.? If that is not a reasonable interpretation, please explain what was meant by the above-quoted statement.
 - e. The 4.1 billion decline in volume from 2012 to the 2014 After Rates Forecast (Jan 26, 2014) reflects an average decline of about 2 percent per year. If the volume of mail continues to decline at that pace, is that likely to create a recurring liquidity problem even if the exigent price increase is approved, or can the Postal Service reasonably expect to continue to adjust its labor force and cost structure to accommodate such a decline in mail volume?
4. For the five Standard Mail products listed below, the FY 2009 and FY 2010 Revenue, Pieces, and Weight System (RPW) Reports posted on the Postal Service's web site show different volume figures for FY 2009. (In the FY 2010

RPW Report, the volume data for FY 2009 appear in the column for the preceding year.)

	(1) As shown in FY 2009 RPW (000's)	(2) As shown in FY 2010 RPW (000's)
HD & Sat. Letters	5,085,391	4,995,529
HD & Sat. Flats	12,356,828	11,801,047
Carrier Route Letters	9,856,763 46,559,408	9,953,347 46,800,733
Flats	7,793,175	7,837,100

- a. Please explain the discrepancy between columns 1 and 2, and state which are the correct volume data for FY 2009.
 - b. For FY 2009, please explain which of the above volume data were used by witness Thress for his analysis of Standard Mail.
5. Please refer to the results for Standard Mail shown in the spreadsheet “Exigent Impact” contained in Library Reference USPS-R2010-4R-10, and also to the Response to POIR No. 3, question 1 by witness Thress, where he states that: “Instead of using direct measures of Internet usage – which would lead to an inevitable expectation that the rate of Internet diversion should attenuate over time as Internet usage levels attenuate toward the stable long-run levels typical of a mature market – the apparent ongoing diversion of mail to the Internet (and elsewhere) *is now modeled through simple linear trends*. To the extent that there is evidence that the rate of diversion may be changing over time, the *magnitude of these trends is allowed to change* over time within the Postal Service’s econometric demand equations. (emphasis added).

- a. For the time period covered by the analysis which underlies the results reported in the spreadsheet “Exigent Impact” contained in Library Reference USPS-R2010-4R-10 for Standard Mail, how many different trends (or trend variables) does the model explicitly contain, (*i.e.*, the column headed “Trends” is plural; do the data reported in this column subsume more than one trend)?
 - b. For each trend (or trend variable) applicable to Standard Mail, please “mov[e] outside the econometric model[]” (see, *e.g.*, response to POIR No.3, question 1) and explain the underlying factors that are (or are thought to be) driving these trends (*e.g.*, bankruptcy and disappearance of through-the-mail merchants, diversion to electronic media for shopping or payment purposes, etc.) and provide the economic rationale for including those trends in the model.
 - c. Does the model used to generate the results for Standard Mail shown in the “Exigent Impact” spreadsheet contain any trends (or trend variables) that are applicable to only one of the individual products within Standard Mail? If so, please indicate the variable to which the trend applies and explain the period covered by such trend and the rationale for inclusion of any such single product trend or trend variable.
 - d. Does the model used to generate the results for Standard Mail shown in the “Exigent Impact” spreadsheet contain any trends (or trend variables) that are applicable only to a subgroup of products within Standard Mail, *e.g.*, Enhanced Carrier Route (ECR), or Regular, or just flats, or just letters? If so, please indicate the subgroup of products to which the trend variable(s) pertain, and explain the rationale for inclusion of any such trend(s).
6. In response to POIR No. 2, question 8, witness Thress states that “[h]istorical trends are projected to continue forward at the same rate because I have no

reason to assume that they will not.” That is, trends generally are considered to remain in effect until they are deemed either to have changed or, perhaps, no longer be applicable.

- a. Were any of the separate trends used to model Standard Mail deemed to have “expired,” or otherwise are no longer in effect at the end of 2011? If so, please explain why they were deemed to be no longer applicable, and explain whether one or more new trend variable(s) was added to the model to replace any trend variable after it was discontinued and no longer had any effect.
 - b. Please explain the criteria used to determine whether any trend(s) or trend variable(s) robust to the model in 2002 were deemed no longer applicable by 2012.
7. For the various Standard Mail products shown in the spreadsheet “Exigent Impact” contained in Library Reference USPS-R2010-4R-10, two separate columns show the change in mail volume attributed, respectively, to (i) Nominal Price, and (ii) Inflation. With respect to the magnitudes of volume change shown in these two columns:
 - a. Are the elasticities for Standard Mail submitted annually to the Commission applicable to nominal or real (*i.e.*, inflation-adjusted) price changes?
 - b. To what extent do the changes in volume attributed to these two factors, either separately or jointly, reflect the annual estimated elasticities for the products within Standard Mail? That is, to what extent do the magnitudes of the estimated changes in volume attributed to “Nominal Price” and “Inflation” conform with and support the elasticity estimates submitted annually to the Commission for the products in Standard Mail?

- c. Do the years shown in the "Exigent Impact" spreadsheet pertain to calendar or fiscal years?
8. Please refer to the Standard Mail products shown in the spreadsheet "Exigent Impact" contained in Library Reference USPS-R2010-4R-10. In the context of annual data, how should one interpret the reported volume changes due to "Seasonality," *i.e.*, to what "season" do these annual changes in volume pertain?
9. Please refer to the Standard Mail products shown in the spreadsheet "Exigent Impact" contained in Library Reference USPS-R2010-4R-10. Under Standard Flats, under the column marked "Rate Change," entries for the years 2007 and 2008 are, respectively, 144.993 and 221.554. Please interpret and explain these two positive entries. Specifically, what "Rate Change" caused an increase in the volume of Standard Flats in those two years (and in no other years)?
10. The following questions pertain to the spreadsheet "Exigent Impact" contained in Library Reference USPS-R2010-4R-10, and the section headed "Standard Regular Flats."
 - a. For the years 2008 and 2009, the estimated volume change due to "Impact of Price Elasticity" were, respectively, -657.745 and -66.739, for a combined two year negative impact of -724.484. For those same years, the estimated impact of Inflation on volume was +171.209 and +40.838, for a combined positive impact of +212.047. Would it be reasonable to say that for these two years the estimated net impact of inflation-adjusted price change on volume of Standard Regular Flats was -512.437? If this is not a reasonable interpretation of the data, please provide the best estimate for the impact of inflation-adjusted price change on the volume of Standard Regular Flats for the years 2008 and 2009 and explain how such an estimate is derived.

- b. For the years 2008 and 2009, the volume change of Standard Regular Flats due to "Total Macro" were, respectively, -952.666 and -1,809.769, for a combined two-year negative impact of -2,762.430. For those two years, would it be reasonable to say that the Total Macro impact on of Standard Regular Flats exceeded by more than five times the impact of inflation-adjusted price changes -512.437. *i.e.*, during the two years in question, the estimated impact of price changes on the volume of Standard Regular Flats appears to have been relatively minor in comparison with the impact of macro-economic factors and the Great Recession. If this is not a reasonable interpretation of the data discussed here, please provide the correct estimate for the impact Total Macro versus real price changes on the volume of Standard Regular Flats for the two years in question.
 - c. For the years 2008 and 2009, the column marked "Other" contains, respectively, the following entries: -1,843.546 and -366.176. Please explain the underlying factors thought to be driving these two entries.
11. The following questions pertain to the spreadsheet "Exigent Impact" contained in Library Reference USPS-R2010-4R-10, the section headed Standard ECR Basic and Standard NP ECR Basic.
- a. Do the volume data shown under "Standard ECR Basic" and "Standard NP ECR Basic" coincide with volume data reported for the "Carrier Route" product contained in the RPW and Cost and Revenue Analysis Reports? If not, please explain all differences.
 - b. Under Standard ECR Basic, for the years 2008 and 2009 the volume change due to "Impact of Price Elasticity" were, respectively, -898.420 and -581.866, for a two-year combined estimated negative impact on volume of -1,480.285. For those same years, the impact of Inflation was +360.729 and +203.229, for a combined estimated positive impact on volume of +563.958. Would it be reasonable to say that for these two years the

estimated net impact of inflation-adjusted price change on the volume of Standard ECR Basic was -916.327? If this is not a reasonable interpretation, please provide the best estimate for the impact of inflation-adjusted price change on the volume of Standard ECR Basic for 2008 and 2009.

- c. Under Standard ECR Basic, for the years 2008 and 2009, the volume change due to "Total Macro" were, respectively, -376.002 and -1,312.280 for a combined negative impact of -1,688.283. For those two years, would it be reasonable to say that the Total Macro impact on Standard ECR Basic exceeded by about 1.8 times the impact of inflation-adjusted price changes? If this is not a reasonable interpretation, please provide the correct estimate for the impact Total Macro versus inflation-adjusted price changes on the volume of Standard ECR Basic for the two years in question.
 - d. Under Standard ECR Basic, for the years 2008 and 2009 the column marked "Other" contains, respectively, the following entries: -1,148.192 and -332.140. Please explain the underlying factors thought to be driving these two entries.
12. In response to question 9 (a-b) of POIR No. 1, witness Thress states: "[t]he trend component of the relevant macro-economic variables is calculated dynamically as a function of past, present, and *future* macro-economic levels at every point in time." (emphasis added). However, in response to question 1b of POIR No. 2, Thress states: "[a]s such, it is not literally possible to incorporate any 'forward looking data or input' directly into the Postal Service's econometric demand equations." Please also refer to Library Reference USPS-LR-R2010-4R-10, Sources-of-ChangeCalc.xlsx, tab "Input Data".
- a. Please confirm that not only the trend component, but also cyclical component of filtered macro-economic variables (employment, investment

- and others) presented in tab “InputData” are calculated “as a function of past, present, and future macro-economic levels at every point in time”.
- b. If part a. is not confirmed, please explain why the cyclical component of filtered macro-economic variables appear to include “future” macro-economic data in columns M, U, Q and Y of tab “InputData” given that they are calculated as raw macro-economic data divided by trend component (which includes “future” data).
 - c. Please explain why witness Thress filters macro-economic variables by applying “a function of...future macro-economic levels”, (see response to POIR No. 1, questions 9 (a-b) while observing that incorporating “forward looking data or input” would induce a circular effect (see response to POIR No. 2, question 1b).
13. In response to question 4a. of POIR No. 3, witness Thress states: “the trend component of private employment per adult is negative in the period between FY 2002 and FY 2012 because employment (per adult) did not begin to recover from the 2001 recession until late 2003 and experienced fairly tepid growth before beginning to decline again by 2007.”
- a. Would it be accurate to say that all negative impacts of 2001 recession on mail volumes were completed by 2007-2008?
 - b. If your response to part a. is not an unqualified affirmative response, please identify and describe the techniques you use to distinguish between the impact of the 2001 recession on mail volumes still exerting an effect in 2008-2012 from similar impacts caused by the Great Recession. As part of your response, please refer to particular tabs and columns in the files provided in your library references where you distinguish between impacts of Great Recession and the impacts caused by the previous recession.

14. Please refer to Library Reference USPS-R2010-4R-10, ExigentImpact.xlsx, tab “Volume”. In response to question 4b of POIR No. 1, witness Thress states: “[t]he distinction between ‘Trends’ and ‘Diversion’ in my Table Two is semantic, and mostly (but not completely) boils down to this: “Trends” are positive and “Diversion” is negative. In response to question 5a. of POIR No. 5, clarifying the meaning of data in the column labeled “Rec/Diversion,” witness Thress states: “[t]he numbers in column W of sheet ‘Volume’ of ExigentImpact.xlsx are intended to capture changes to long-run mail trends which are attributable to the Great Recession”.
- a. Please identify and describe the factors/trends that impacted volume changes shown in column U (labeled “Diversion”) and how they are different from factors or trends that resulted in mail volume changes shown in column W (labeled “Rec/Diversion”).
 - b. Please identify and describe the factors/trends that impacted volume changes shown in column V (labeled “Recession”) and how they are different from factors or trends that resulted in mail volume changes shown in column W (labeled “Rec/Diversion”).
 - c. Please refer to any spreadsheets or files in the Library References filed in your responses to the current docket that provide the breakdowns of impacts on mail volumes from each factor/trend identified in parts a. and b. above, and summarized in columns V and W (labeled “Rec/Diversion” and “Recession”).
 - d. Please provide a more explicit statement to clarify what you mean by “mostly but not completely boils down to this: ‘Trends’ are positive and ‘Diversion’ is negative” in your response to POIR No. 1, question 4b. As part of your response, please describe the exact differences between trends and diversion as used in your spreadsheets and described in the above quote.

- e. As an example of your response to part d., please provide your interpretation of the numbers and differences shown in column H labeled “Trends” and in column U labeled “Diversion” using an example of First-Class Workshared Letters.

Ruth Y. Goldway
Presiding Officer